

SENATE BILL REPORT

SB 6059

As of January 9, 2018

Title: An act relating to the insurer corporate governance annual disclosure model act.

Brief Description: Addressing the insurer corporate governance annual disclosure model act.

Sponsors: Senators Angel and Mullet; by request of Insurance Commissioner.

Brief History:

Committee Activity: Financial Institutions & Insurance: 1/09/18.

Brief Summary of Bill

- Implements the National Association of Insurance Commissioner's Corporate Governance Annual Disclosure Model Act.
- Requires insurers to submit a corporate governance disclosure to the insurance commissioner annually.
- Adds the annual corporate governance disclosure and accompanying documents to the list of insurance and financial institution-related documents that are exempt from public disclosure.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Staff: Jarrett Sacks (786-7448)

Background: The Office of the Insurance Commissioner (OIC) regulates insurance transactions in Washington, and is headed by the insurance commissioner (Commissioner). The OIC has rulemaking and enforcement authority over insurance and insurers.

The National Association of Insurance Commissioners (NAIC) is an association of state insurance agencies that coordinates the regulation of insurance. One approach NAIC uses to coordinate state regulation of insurance is to develop model laws, rules, and standards. In 2014, the NAIC executive committee adopted corporate governance models, including a model act and model regulation.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

The NAIC's corporate governance model rule requires insurers to file a corporate governance disclosure (disclosure) annually. The disclosure must describe:

- the insurer's corporate governance framework and structure, including the structure and duties of the board or various committees that oversee the insurer;
- the policies and practices of the most senior governing entity of the insurer;
- the policies and practices for directing senior management; and
- the processes used by the board and senior management to ensure that there is appropriate oversight of the critical risk areas impacting the insurer's business activities.

Summary of Bill: The bill implements NAIC's Corporate Governance Annual Disclosure Model Act.

An insurer, or the insurance group of which the insurer is a member, must submit a corporate governance disclosure to the Commissioner by June 1 of each year. The disclosure must contain the information required by NAIC's corporate governance model rule, which may be adopted by the Commissioner. The insurer or insurance group may provide information regarding corporate governance at either (1) the ultimate controlling parent level; (2) an intermediate holding company level; or (3) the individual legal entity level, or any combination of the three levels. An insurer that has provided substantially similar information in other documents provided to the Commissioner may cross-reference the documents in its disclosure.

The disclosure, and any document or material submitted as part of the disclosure, is recognized by the state as proprietary and to contain trade secrets. All documents, materials, or other information is confidential by law and privileged, and is not subject to the Public Records Act. Additionally, the documents are not subject to subpoena, nor are they discoverable or admissible as evidence in any private civil action. The Commissioner may use the documents as part of any regulatory or legal action brought as part of the Commissioner's official duties, and the Commissioner may share the documents with other state, federal, and international financial regulatory agencies, NAIC, and with third-party consultants that are necessary to assist the Commissioner in reviewing the disclosure.

An insurer that fails to timely file the disclosure must pay a penalty of \$500 for each day of delay, with a maximum penalty of \$100,000. The penalty is collected by the Commissioner and paid into the state General Fund. The Commissioner may reduce the penalty if the insurer demonstrates that the penalty would constitute a financial hardship to the insurer.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: The bill takes effect on January 1, 2019.

Staff Summary of Public Testimony: PRO: The bill will improve regulators' insight and provide more frequent review of insurers' corporate governance. When the NAIC performed

an analysis of insurers' corporate governance, it highlighted the need for more information. NAIC accreditation is dependent on the implementation of the model act, and accreditation is important for insurers and the state. No accreditation means higher costs for insurers. The confidentiality provisions go hand-in-hand with the other information received by OIC.

OTHER: The bill makes corporate governance documents proprietary and confidential even though much of it is basic information provided to shareholders of public companies. The bill contains a large blanket exemption to the Public Records Act instead of a more narrow one for just proprietary information, which is counterproductive to withhold from the public.

Persons Testifying: PRO: Senator Jan Angel, Prime Sponsor; Lonnie Johns-Brown, Washington Office of the Insurance Commissioner; Christine Brewer, Association of Washington Healthcare Plans; Jean Leonard, WA INSURERS; State Farm; NAMIC; Mel Sorensen, PCI, ACLI, AHIP.

OTHER: Rowland Thompson, Allied Daily Newspapers of Washington.

Persons Signed In To Testify But Not Testifying: No one.